EXHIBIT B

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EXHIBIT B
BUDGET DETAIL AND PAYMENT PROVISIONS

I. PAYMENT PROVISIONS

The Contractor agrees to arrange for the provision of medical benefits and case management services for subscribers in the Program as described in Exhibit A, Section IV of this Agreement.

A Fees Provided to Contractor

1. As specified in Item I.B of this Exhibit, the State shall pay the Contractor a flat fee per month per subscriber child of the age of one and over for all services received by the subscriber and a flat fee per month per subscriber child who is enrolled in the program under the age of one for all services received by the subscriber (infant rate). For a subscriber child who is enrolled in the program under the age of one, the State will pay the infant rate through the end of the month of the child's first birthday, but for no more that twelve (12) months. A subscriber's age will be determined on the first day of each month except as further provided herein. For a child who is enrolled in the program on or after the child's first birthday, the State shall pay at the rate for children age one and over, in accordance with Item I.B.1 of this Exhibit. These fees are set forth in Attachment VI, Confidential Rates of Payment, which is hereby incorporated.

2. In cases of subscriber eligibility and enrollment appeals, which results in liability of health care costs by the State, the Contractor shall pay the provider for services delivered within 30 days following notification by the State of the appeal findings and shall claim reimbursement from the State within 45 days after notification by the State of the appeal findings. The State shall pay the Contractor the actual costs paid by the Contractor for services received. The Contractor shall reimburse and claim for such services at any discounted rate that the Contractor may have in place for the provider in the program and that is accepted by the provider as payment in full. Such payments may only be made by the Contractor and paid by the State when the Contractor receives prior written direction from the State.

3. (ONLY FOR HEALTH PLANS THAT ARE ALSO AIM CONTRACTORS)

   Notwithstanding Item I.A.1, the State shall pay the Contractor a lump sum payment to cover an infant born to a woman enrolled in

the AIM Program with the Contractor. The payment shall cover the period from birth through the end of the month following the month of birth. The State shall make the lump sum payment in the month following the reporting of the birth by the Contractor to the Administrative Vendor for the HFP/AIM programs, for only those infants who have been reported to the Administrative Vendor in accordance with the provisions in Exhibit A, Item II.B. After the second month, if the infant remains enrolled with the Contractor, the State shall pay the Contractor at the infant rate specified in Item I.A.1 through the end of the month of the Child's first birthday, but for no more than ten (10) months. The lump sum fee is set forth in Attachment VI, Confidential Rates of Payment. Infants who were not reported by the Contractor in accordance with Exhibit A, Item II.B shall be paid at the infant rate specified in Item I.A.1 upon enrollment, pursuant to Item I.B.

B. Payment Schedule

1. For the first month or partial month of a subscriber's coverage the State agrees to pay one hundred percent (100%) of the fee described in Item I.A.1 of this Exhibit for subscribers with effective dates of coverage on the first (1st) through fifteenth (15th) day of the month. No fee shall be paid for the first partial month of coverage for subscribers whose coverage begins on the sixteenth (16th) through thirty-first (31st) day of the month. The State agrees to pay the fee within fifteen (15) days after the completion of the month of coverage.

2. For all months of coverage after the first month in which a subscriber's coverage becomes effective, the State agrees to pay the fee described in Item I.A.1 of this Exhibit. The State agrees to pay the fee within fifteen (15) days after the completion of the month of coverage.

C. Special Enrollment Materials Cost

In any event of an assignment of this Agreement or other transaction through which any entity purchases or otherwise acquires the Contractor's program enrollment, an early termination, or the removal of coverage in a service area by the Contractor which requires a special open enrollment, the Contractor agrees to pay the State for actual costs or $9.00 per affected subscriber, whichever is greater, for subscribers enrolled in the Contractor's plan who must be moved to another participating plan.

The Contractor understands that the State does not intend to permit any special open enrollment between March 1 and June 30 of any year.

Nothing in this Item I.C. shall be construed to limit the State's sole discretion to disapprove any proposed assignment pursuant to Item III of Exhibit C.

II. FISCAL CONTROL PROVISIONS

A. Minimum Loss Ratio

1. The Contractor agrees that administrative costs shall be reasonable. The Contractor agrees that, once the Contractor's plan has a minimum of 1,000 enrolled subscribers per month for six or more months of a benefit year, the minimum loss ratio for services provided to all subscribers pursuant to this Agreement shall be _____%. For reporting purposes, the Contractor's loss ratio shall be calculated in aggregate for all subscribers, using the following formula:

   a/b

   Where "a" is: Total covered benefit and service costs of Contractor including incurred but not reported claim completion costs minus subscriber co-payment requirements and minus amounts recovered pursuant to Exhibit A, Items IV.I, IV.J and IV.K of this Agreement, and

   where "b" is: Total premiums received by the Contractor.

2. The Contractor shall report the previous benefit year's loss ratio, and an interim loss ratio for July through November of the current year, by January 1 of each year.

3. The Contractor understands that the State may make the results of the loss ratio report listed in Item 2. above available to the public.

4. As part of evaluating the quality of the Contractor's operations, the State has established a goal to ensure one evaluation of the Contractor's reported loss ratio is completed on behalf of the Contractor for each three-year period during the term of this Agreement. Each evaluation shall evaluate the minimum loss ratios for a benefit year. The evaluations will be done in accordance with standards and procedures for audits, reviews, examinations and evaluations set forth in Exhibit D, Item II.D of this Agreement. The State will notify the Contractor if the Contractor will be scheduled for an evaluation. The State will work with the Contractor regarding scheduling evaluation dates. The evaluations will be performed by the California Department of Managed Health

Care or a qualified entity to be selected by the State. Except as provided in Item II.A.5a, the State will pay the Department of Managed Health Care or selected qualified entity on behalf of the Contractor for the cost of the loss ratio evaluation.

5. The Contractor agrees that if an evaluation described in Item II.A.4 determines that the minimum loss ratio is less than the ratio specified in Item II.A.1:.

   a. The State shall, not to exceed two additional benefit years, conduct an evaluation for each successive benefit year that the minimum loss ratio is less than the ratio specified in Item II.A.1. Within thirty (30) days of the receipt of an invoice provided by the State, the Contractor shall reimburse the State for each such evaluation.

   b. For each evaluation described in Items IIA.4 and IIA.5.a which determines that the minimum loss ratio is less than the ratio specified in Item IIA.1, the Contractor shall credit the State with the amount of money which the State determines is required for the Contractor to meet the minimum loss ratio for the applicable benefit year.

6. The Contractor shall credit the State with the amounts of money determined by the State pursuant to Item II.A.5.b as follows:

   a. Commencing with the first month after the completion of an evaluation described in Items II.A.4 or II.A.5.a which determines that the minimum loss ratio is less than the ratio specified in Item II.A.1, and after written notification to the Contractor, the credit of the amount described in Item II.A.5.b shall be applied to the amounts due pursuant to Item I.B until the amount of the credit is entirely exhausted.

   b. If this Agreement is terminated prior the application of credits described in Item II.A.5.b, then within thirty (30) days of the receipt by the Contractor of written notification of the amounts of the money determined by the State pursuant to Item II.A.5.b, the Contractor shall pay the State such amounts.

B. <u>Payment Limitation</u>

1. Only subscribers for whom a premium is paid by the State to the Contractor are entitled to health services and benefits provided hereunder and only for services rendered or supplies received

during the period for which the subscriber is enrolled.

2. The Contractor agrees to reconcile, on at least a monthly basis, eligibility data provided by the State with the Contractor's data on persons for whom claims, capitation payments, and other payments related to services and benefits were made in the Program. The Contractor shall make any necessary adjustments indicated by the reconciliation to ensure compliance with Item II.B.1. The Contractor shall maintain records of these reconciliations in accordance with Exhibit D, Item II.C of this Agreement. The Contractor shall ensure that only the costs of services and benefits covered in the Program are included in the numerator of the loss ratio calculation set forth in Item II.A.

3. The State shall not be liable for any reconciliation discrepancies reported by the Contractor more than sixty (60) days from the date the monthly audit file is provided to the Contractor, pursuant to Exhibit A, Item II.J.8.

C. Availability of Federal Funds

1. It is mutually understood between the parties that this Agreement may have been written for the mutual benefit of both parties based on then-existing regulations and federal executive agencies' interpretation and application of relevant statutes but, before ascertaining the availability of Congressional appropriation of funds~~,~~ in order to avoid program and fiscal delays which would occur if the Agreement were executed after that determination was made.

2. This Agreement is valid and enforceable only if sufficient funds are made available to the State by the United States Government for the purposes of this program for the fiscal years covered by the term of this Agreement. In addition, this Agreement is subject to any additional restrictions, limitations, or conditions made applicable at any time by:

   a. enactments of Congress or

   b. regulations promulgated or amended by federal executive agencies, or

   c. the interpretation or application by federal executive agencies of relevant regulations and statutes that may affect the provisions, terms or funding of this Agreement in any manner.

3. The parties mutually agree that, if Congress does not appropriate sufficient funds for the Program or, as described in Exhibit B, Items II.C.2.a, b and c, restrictions, limitations or conditions affect the provisions, terms or funding of this Agreement, this Agreement shall be amended to reflect any reduction in funds and any restrictions, limitations or conditions that affect the Agreement's provisions, terms or funding.

4. The State has the option to invalidate this Agreement under the 30-day termination clause in Exhibit D, Item I.B or to amend the Agreement to reflect any reduction in funds.

D. Prior to Fiscal Year/Crossing Fiscal Years

It is mutually agreed between the parties that this Agreement may have been signed and executed prior to the start of the 2005-06 State Fiscal Year, before ascertaining the availability of funds for the 2005-06 State Fiscal Year. This Agreement has also been written with a term that crosses State Fiscal Years, and therefore before ascertaining the availability of legislative appropriation of funds for the 2008-09 and 2009-2010 State Fiscal Years. This Agreement is valid and enforceable only if sufficient funds are made available through the 2008-09 and 2009-2010 State Budgets for the purposes of this Program. In addition, this Agreement is subject to any additional restrictions, limitations, or conditions enacted in statute by the State Legislature which may affect the provision, term or funding of this Agreement in any manner. It is mutually agreed that if the State Legislature does not appropriate sufficient funds for this Program, the Agreement shall be amended to reflect any reduction in funds and enrollment shall be curtailed by the State proportionately.

E. Healthy Families Fund Encumbrance

There is no specific maximum amount assigned to this Agreement. Rather, the Contractor is paid through a general encumbrance from the Healthy Families Fund apportioned to the Contractor on an as needed basis. Payments under this Agreement are limited to the provisions of Items I.A. and I.B. of this Exhibit.

F. Fiscal Solvency **(DMHC)**

The Contractor agrees that it shall at all times maintain the reserves required under the Knox-Keene Health Care Service Plan Act of 1975, as amended, and the regulations promulgated there under by the Department of Managed Health Care, including the Tangible Net Equity regulations.

Evidence of above solvency shall be made available to the State upon request. If the Contractor's reserves fall below the statutory requirement, the Contractor shall within 15 calendar days notify the State in writing and by telephone communication with the Board's Executive Director and its Chief Deputy Director.

OR

F. Fiscal Solvency **(CDI)**

The Contractor agrees that it shall at all times comply with all solvency requirements of its licensing statute and regulations and shall at all times maintain one of the following:

a. A rating of A+ under Best insurance rating, or

b. A surplus capable of paying one month of Contractor's paid claims. The amount of one month of the Contractor's paid claims shall be established by averaging claims paid in each of the previous twelve (12) months.

Evidence of above solvency shall be made available to the State upon request. If the Contractor's reserves fall below the statutory requirement, the Contractor shall within 15 calendar days notify the State in writing and by telephone communication with the Board's Executive Director and its Chief Deputy Director.

G. Federally Funded Programs (Medicare & Medicaid)

The Contractor shall remain in good standing with the State Department of Health Services for services provided to Medi-Cal subscribers, with the federal Centers for Medicare and Medicaid Services for services provided to Medi-Cal or Medicare subscribers, and with the Office of the Inspector General of the Department of Health and Human Services. On request, the Contractor agrees to provide the State immediately with copies of all correspondence received from the Department of Health Services, the Centers for Medicare and Medicaid Services, and the Office of the Inspector General of the Department of Health and Human Services which pertains to the Contractor's standing with the respective departments. In addition, the Contractor shall immediately notify the State of any investigations in which there are allegations related to fraud, including but not limited to: (1) the receipt of an administrative subpoena from any state or federal agency, unless the Contractor is advised that it is not the target or subject of the investigation; (2) the receipt of a grand jury subpoena from any state or federal court, unless the contractor is advised that it is not the target or subject of the investigation; (3) the execution of a search

and seizure warrant at any of the contractor's offices or locations related to such investigations; and (4) the filing of any charges against the contractor in any state or federal court related to such investigations. The Contractor shall immediately notify the State if the Contractor receives a letter of pending sanction or formal corrective action (such as corrective action addressing audit findings or systemic problems) from the State Department of Health Services, the Centers for Medicare and Medicaid Services, or the Office of the Inspector General of the Department of Health and Human Services.

H. Licensing Sanction Notifications **(DMHC)**

The Contractor agrees that it shall remain in good standing with the Department of Managed Health Care. On request, the Contractor agrees to provide the State with copies of all correspondence from the Department of Managed Health Care that pertains to the Contractor's standing with its regulatory entity. The Contractor shall immediately notify the State if the Contractor receives a letter of pending sanction or formal corrective action (such as corrective action addressing audit findings or systemic problems) from the Department of Managed Health Care.

OR

H. Licensing Sanction Notifications **(CDI)**

The Contractor agrees that it shall remain in good standing with the California Department of Insurance. The Contractor agrees to provide the State with copies of all correspondence from the Department of Insurance that pertains to the Contractor's standing with their regulatory entity. The Contractor shall immediately notify the State if the Contractor receives a letter of pending significant sanction or corrective action from the Department of Insurance.

I. Contractor Performance Standards, Liquidated Damages and Remedy for Non-Performance

1. The State shall monitor the Contractor's compliance with the terms of this Agreement. The State shall attempt to work with the Contractor to assist the Contractor in fulfilling its obligations under this Agreement.

2. If the State finds the Contractor to be out of compliance with the terms of the Agreement, the State may, after thirty (30) days written notice to the Contractor and an opportunity to cure such non-compliance or default within that thirty (30) day period, suspend thereafter enrollment of eligible subscribers in the Contractor's

health plan. Notice provided to the Contractor pursuant to this section shall include a description of those actions/standards the Contractor must achieve for enrollment to be resumed. Resumption of enrollment is at the discretion of the State.

3. The State and the Contractor agree that the following sections of this Agreement contain objective performance standards to be met by the Contractor which shall be monitored by the State:

   a. Exhibit A, Item II.F. Identification Cards, Provider Directory, and Evidence of Coverage (EOC) or Certificate of Insurance (COI) Booklet

   b. Exhibit A, Item II. K. Network Information Service

   c. Exhibit A, Item II. L.2 and 3. Traditional and Safety Net Providers Reports

   d. Exhibit A, Item III. A. Telephone Service for Subscribers

   e. Exhibit A, Item III.B.2. Grievance Report

   f. Exhibit A, Item III.C.~~4.c~~3.b. Cultural and Linguistic Services Report

   g. Exhibit A, Item IV.B.4~~3~~. California Children's Services Report

   h. Exhibit A, Item IV.D.4~~3~~. Mental Health: Services for Subscribers with Serious Emotional Disturbance Report

   i. Exhibit A, Item IV.H.3. Copayments Report

   j. Exhibit A, Item V.A. Measuring Clinical Quality

   k. Exhibit A, Item V.B. Measuring Consumer Satisfaction

   l. Exhibit A, Item V.C. ~~Standards Designed to Improve the Quality of Care~~ Health Care Services

   m. Exhibit A, Item V.D. Performance Standards

   n. Exhibit A, Item V.E. Encounter and Claims Data

   o. Exhibit A, Item V.F. Quality Management Processes

p. Exhibit A, Item V.G. Group Needs Assessment

q. Exhibit B, Item I.C. Special Enrollment Materials Cost

r~~n~~. Exhibit B, Item II.A.2. Minimum Loss Ratio Report

s~~o~~. Exhibit B, Item II.B.2. Payment Limitation Reconciliation

4. If, in the State's view, the Contractor has not fulfilled its contractual responsibilities with regard to one or more of the items identified in Item 3 above, the State shall notify the Contractor in writing of the Contractor's lack of performance. If the Contractor does not improve performance to an acceptable level within 5 business days after receipt of such notice, the State may impose liquidated damages on the Contractor of no more than five percent (5%) per day of the Contractor's average daily fee per day beginning on the sixth business day following notification. If the Contractor's performance does not improve within 15 additional business days from the first day liquidated damages were imposed, the State after written notice to the Contractor, may increase the liquidated damages to ten percent (10%) per day of the Contractor's average daily fee per day beginning on the 16th business day following the receipt of notification of non-performance until the Contractor is in compliance with the Contract. The Contractor's average daily fee is calculated by taking the Contractor's total monthly premium and dividing by the number of calendar days in that particular month. In no event shall the total amount of liquidated damages imposed for the items identified in Item 3 above exceed ten percent (10%) per day.

5. All liquidated damages must be paid to the State within ten (10) calendar days of receipt of an assessment letter.

6. If the State determines that the Contractor's non-performance was caused in whole or in part by the State, the State shall reduce the damages proportionately.

7. The parties agree that the damages for failure to provide the deliverables and/or meet the contractual performance standards described herein are not susceptible to exact calculation in advance and that the liquidated damage amounts specified in this Agreement represent an agreed estimate of what the future damages would be. These liquidated damages are not intended to be penalties.

J. Licensure **(DMHC)**

Department of Managed Health Care Licensees

The Contractor assures the State that it has a license to provide services under this Agreement from its regulatory agency, the Department of Managed Health Care.

OR

J. Licensure **(CDI)**

California Department of Insurance Licensees:

The Contractor assures the State that it has a license to provide services under this Agreement from its regulatory agency, the Department of Insurance.

K. Risk Assessment and Adjustment Process

The State may convene a Risk Assessment/Risk Adjustment Work Group for the purpose of exploring the necessity and feasibility of assessing and correcting for risk mix differences between health plans. The Contractor agrees to provide technical staff to participate in the Work Group to be convened by the State.